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SUBJECT: INVESTMENT CLIMATE STATEMENT 2007 - ITALY, PART II

REF: ROME 147

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¶1. This is part two of a two-part cable on Italy's investment climate. (See ref A for part one.)

BILATERAL INVESTMENT AGREEMENTS

¶2. As of December 2006, Italy has bilateral investment agreements with the following countries:

Albania
Algeria
Angola (signed, not enforced)
Argentina
Armenia
Azerbaijan
Bangladesh
Barbados
Belarus
Belize (signed, not enforced)
Bolivia
Bosnia and Herzegovina
Brazil (signed, not enforced)
Bulgaria
Cape Verde (signed, not enforced)
Chad
Chile
China
Colombia (signed, not enforced)
Congo
Cote d'Ivoire (signed, not enforced)
Croatia
Cuba
Czech Republic
Democratic Republic of Congo (signed, not enforced)
Dominican Republic (signed, not enforced)
Ecuador (signed, not enforced)
Egypt
Eritrea
Estonia
Ethiopia
Gabon
Georgia
Ghana (signed, not enforced)
Guatemala (signed, not enforced)
Guinea
Hong Kong, China

Hungary
India
Indonesia
Iran, Islamic Republic of
Jamaica
Jordan
Kazakhstan
Kenya
Korea, DPR of (signed, not enforced)
Korea, Republic of
Kuwait
Latvia
Lebanon
Libya
Lithuania
Macedonia, Republic of
Malawi (signed, not enforced)
Malaysia
Malta
Mauritania (signed, not enforced)
Mexico
Moldova, Republic of
Mongolia
Morocco
Mozambique
Nicaragua
Nigeria
Oman
Pakistan
Paraguay (signed, not enforced)
Peru
Philippines
Poland
Qatar

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Romania
Russian Federation
Saudi Arabia
Slovakia
Slovenia
South Africa
Sri Lanka
Sudan (signed, not enforced)
Syrian Arab Republic
Tunisia
Turkey
Uganda
Ukraine
United Arab Emirates
Tanzania, United Republic of
Uruguay
Uzbekistan
Venezuela
Vietnam
Yemen (signed, not enforced)
Zambia (signed, not enforced)
Zimbabwe (signed, not enforced)

OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

¶3. The U.S. Overseas Private Investment Corporation (OPIC) does not operate in Italy. However, in March 2003, OPIC signed a Memorandum of Understanding with SIMEST (Societa Italiana per le Imprese all'Estero), its Italian counterpart, to expand cooperation, particularly on projects in third countries. Italy, through its Export Credit Agency, SACE, has signed a memorandum of understanding with the World Bank's Multilateral Investment Guarantee Agency (MIGA).

LABOR

¶4. Unemployment in Italy is moderate at 6.1 percent (third quarter 2006), and below the average of 7.7 percent among euro zone countries (November 2006). Italy's unemployment rate is currently at the lowest level since 1992. Traditional regional disparities remain unchanged, with the southern third of the country posting a 10.7 percent unemployment rate -- compared to 3.6 percent in northern and 5.5 percent in central Italy. Despite these differences, internal migration within Italy remains modest. Labor shortages in the North are often filled by unskilled and semi-skilled immigrants.

¶5. Italy's labor force is fairly well-educated. According to a 2001 national survey, 7.9 percent of adults hold university degrees. According to the OECD 2005 Economic Review of Italy, the private internal rate of return -- which measures incentives to invest in human capital -- is much lower for higher education than the OECD average, indicating there may be limited incentive for Italians to pursue higher education. This is due to the fact that persons with higher educations do not earn substantially more than persons with upper secondary educations, and because the unemployment risk is comparable for people at both levels of education. Therefore, firms interested in investing in Italy may have difficulties finding highly specialized Italian employees.

¶6. As in many Western EU member states, there are legal obstacles to hiring and firing workers. Companies may bring in a non-EU employee only after the government-run employment office has certified that no qualified, unemployed Italian is available to fill the position. Work visas are subject to annual quotas, although intra-company transfers are exempt from quota limitations.

¶7. In recent years, the Italian labor market has become somewhat more flexible. A series of legal reforms has encouraged the hiring of part-time employees by reducing employer social security contributions for these workers. New laws have also created opportunities for outsourcing, job-sharing, and use of private employment services. New types of contracts now exist that allow for reduced labor costs. However, high costs and legal obstacles associated with laying off workers still remain a disincentive for adding employees.

¶8. Italy is an International Labor Organization member country. Terms and conditions of employment are also periodically fixed by collective labor agreements in different professions. Most Italian

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unions are grouped into four major national confederations: the General Italian Confederation of Labor (CGIL), the Italian Confederation of Workers' Unions (CISL), the Italian Union of Labor (UIL), and the General Union of Labor (UGL). The first three organizations are affiliated with the International Confederation of Free Trade Unions (ICFTU), while the UGL has been associated with the World Confederation of Labor (WCL). The confederations negotiate national level collective bargaining agreements with employer associations, which are binding on all employers in a sector or industry.

FOREIGN TRADE ZONES/FREE PORTS

¶9. There are two free trade zones in Italy, located in Trieste and Venice, both in the northeast. Goods of foreign origin may be brought in without payment of taxes or duties, as long as the material is to be used in the production or assembly of a product that will be exported. The free-trade zone law also allows a company of any nationality to employ workers of the same nationality under that country's labor laws and social security systems.

Benefits of the free-trade zones include:

- Customs duties deferred for 180 days from the time that the goods leave the free trade zone to enter another EU country.
- The goods may undergo transformation free of any customs restraints.
- Absolute exemption from any duties on products coming from a third country.

U.S. Companies in Italy

¶10. The largest U.S. companies in Italy, based on number of employees, are: IBM, General Electric, Pfizer, Whirlpool, Electronic Data Systems (EDS), Accenture, Lear, and United Technologies.

FOREIGN DIRECT INVESTMENT STATISTICS

¶11. While Italy provides a reasonably attractive environment for investment, it lags behind many of its fellow EU member states in attracting and maintaining foreign investment. According to Bank of Italy figures, net foreign investment into Italy in 2005 totaled USD 18.7 billion (equal to 1.1 percent of GDP) -- well below that of Luxembourg (USD 87.6 billion) France (USD 47 billion), Belgium (USD 29.5 billion), Spain (USD 25.6 billion), Ireland (USD 25.5 billion); but slightly above that of Germany (USD 12.9 billion).

Table 1: Italian Foreign Direct Investment Inflows by Economic Sector (Net) 2002-2005 (USD Millions) (1) (*)

	2002	2003	2004	2005
Agriculture	-95.6	108.5	234.8	511.8
Energy	435.2	1993.8	4463.3	10057.1
Industry of which:	4942.9	5933.1	2016.2	6996.3
Machine	1942.1	2023.9	3690.7	1314.3
Chemical	623.4	1066.8	-3535.4	441.0
Food	504.2	2483.5	362.7	2388.8
Textiles	394.5	353.4	513.0	544.1
Mineral/Metal	311.2	468.5	687.0	1315.5
Other	1167.5	-463.0	298.2	992.6
Building and Public Works	168.4	363.0	125.7	205.0
Services of which:	8812.9	6634.2	9576.4	925.5
Banking/ Insurance	4011.0	2972.2	5749.1	1207.5
Trade	525.0	410.4	36.0	653.4
Transportation/ Communication	544.0	-412.6	516.8	-11468.3
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Other Services (Not For Sale)	4459.3	3732.9	3664.2	3274.5
T O T A L	14263.8	15031.9	16416.2	18695.7

Table 2: Italian Direct Investment Outflows by Economic Sector (Net) 2002-2005 (USD Millions) (1) (*)

	2002	2003	2004	2005
Agriculture	8.5	38.0	21.1	70.8
Energy	2376.4	3450.7	5336.7	2675.8
Industry of which:	3321.4	1332.9	7573.9	7629.8
Machine	1428.5	-1393.3	4234.8	3684.5
Chemical	321.6	721.2	1730.4	1730.4
Food	99.3	295.2	151.6	206.2

Textiles	469.2	336.6	287.0	411.2
Mineral/Metal	158.0	274.0	246.0	600.0
Other	844.8	1099.2	924.1	997.5
Building And Public Works	-35.0	223.6	85.7	159.0
Services of which:	9848.8	1935.7	5037.3	7444.7
Banking/ Insurance	4140.6	5492.6	2636.0	5164.6
Trade	852.3	485.3	1060.9	923.0
Transportation/ Communication	338.7	-8217.6	-923.0	110.6
Other Services (Not For Sale)	4517.2	4175.4	2263.4	1264.6
T O T A L	15520.1	6980.9	18054.7	17980.1

Table 3a: Stock of Foreign Direct Investment in Italy by Major Investors; Year End 2003-2005 (USD Millions) (1)

	2002	2003	2004	2005
United States	15373.7	19458.1	22448.3	21451.0
EU (3) of which:	80358.0	114010.0	140651.5	145179.5
France	17071.0	21294.1	24608.6	25637.5
Netherlands	17444.7	26882.4	39009.4	40079.1
United Kingdom	14692.1	22266.6	26613.9	25434.5
Germany	9959.3	13797.2	14312.3	15309.3
Luxembourg	13171.2	18354.2	22336.5	24042.5
Sweden	2431.2	2967.5	3341.8	3034.2
Belgium	2307.9	2963.7	3335.1	1982.3
Spain	936.3	1279.1	1941.0	4820.5
Other EU (4)	2344.3	4205.3	5286.9	4839.4
Switzerland	15375.8	18481.9	21872.7	20115.7
Liechtenstein	1438.4	1824.8	2105.9	1975.2
Japan	2315.2	2991.2	3595.2	3419.1
Argentina	129.4	165.2	257.4	246.8
Brazil	58.5	78.8	128.7	184.2
Other	6182.7	7806.0	9328.5	8747.3
T O T A L	121,231.7	164,816.0	200,379.4	201,318.8

Table 3b: Stock Of Foreign Direct Investment In Italy by Major Investors; Year End 2002-2005 (Percentage of Total)

	2002	2003	2004	2005
United States	12.7	11.8	11.2	10.7
EU (3)	66.3	69.2	70.2	72.1
France	14.1	12.9	12.3	12.7
Netherlands	14.4	16.3	19.5	19.9
United Kingdom	12.1	13.5	13.3	12.6
Germany	8.2	8.4	7.1	7.6
Luxembourg	10.9	11.1	11.1	11.9
Sweden	2.0	1.8	1.7	1.5
Belgium	1.9	1.8	1.7	1.0

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Spain	0.8	0.8	1.0	2.4
Other EU (4)	1.9	2.6	2.6	2.4
Switzerland	12.7	11.2	10.9	10.0
Liechtenstein	1.2	1.1	1.1	1.0
Japan	1.9	1.8	1.8	1.7
Argentina	0.1	0.1	0.1	0.1
Brazil	0.1	0.0	0.1	0.1
Other	5.0	4.8	4.6	4.3

T O T A L	100.0	100.0	100.0	100.0
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Table 4a: Stock Of Italian Direct Investment Abroad by Major Recipient; Year End 2002-2005 (USD Millions) (2)

	2002	2003	2004	2005
United States	17390.4	18420.5	18851.2	19617.5
EU (3)	118190.0	150010.0	182521.4	178145.2
Netherlands	32087.7	48455.6	63268.1	65081.5
Luxembourg	24228.6	21755.9	26363.3	25154.7
France	16131.5	20921.2	24344.5	23866.6
United Kingdom	18715.0	20270.3	24158.2	22617.5
Germany	9272.4	13065.1	15758.7	15004.7
Spain	7125.3	9871.1	10882.0	9866.6
Belgium	3369.5	4569.5	5308.3	4944.5
Sweden	600.2	748.4	866.3	892.6
Other EU (4)	6659.7	10352.9	11572.4	10716.6
Switzerland	9321.5	10954.9	10559.0	10007.1
Brazil	2486.4	3473.1	3954.4	4935.1
Argentina	1633.6	2127.7	2178.3	2211.3
Japan	954.1	1137.7	1249.9	1164.1
Liechtenstein	144.1	169.0	194.4	175.9
Other	19552.1	22342.9	24901.6	26460.5
T O T A L	169672.0	208635.8	244410.2	243982.3

Table 4b: Stock of Italian Direct Investment Abroad by Major Recipient; Year End 2002-2005 (Percentage of Total)

	2002	2003	2004	2005
United States	10.2	8.8	7.7	8.0
EU	69.7	71.9	74.7	73.0
of which:				
Luxembourg	14.3	10.4	10.8	10.3
Netherlands	18.9	23.2	25.9	26.7
France	9.5	10.0	10.0	9.8
Germany	5.5	6.3	6.4	6.1
United Kingdom	11.0	9.7	9.9	9.3
Spain	4.2	4.7	4.5	4.0
Belgium	2.0	2.2	2.2	2.0
Sweden	0.4	0.4	0.4	0.4
Other EU (3)	3.9	5.0	4.7	4.4
Switzerland	5.5	5.4	4.3	4.1
Brazil	1.5	1.7	1.6	2.0
Argentina	1.0	1.0	0.9	0.9
Japan	0.6	0.5	0.5	0.5
Liechtenstein	0.1	0.1	0.1	0.1
Other	11.4	10.6	10.2	11.4
T O T A L	100.0	100.0	100.0	100.0

Table 5a: U.S. Investment in Italy by Economic Sector End-Year 2002-2005 (USD Millions) (2)

	2002	2003	2004	2005
Agriculture	29.2	36.3	40.2	41.3
Energy	434.2	545.7	627.6	576.2
Industry	9236.0	11812.3	13607.1	12958.7
of which:				
Machine	2098.1	2635.8	2979.7	2792.2
Transportation				

Equipment	621.1	782.2	902.5	830.0
Chemical	2487.5	3162.7	3689.1	3447.5
Food	1306.9	1667.1	1920.3	2003.5
Textiles	179.5	230.3	273.6	260.9
Minerals/Metals	272.4	395.5	451.9	433.3
Other	2297.5	2938.7	3390.0	3191.3
 Services of which:	 5647.2	 7063.8	 8173.4	 7874.8
Trade	690.0	853.6	987.0	933.9
Banking/ Insurance	2910.2	3505.6	4008.2	3771.0
Transportation/ Communication	456.2	582.0	666.5	636.4
Other Services	1590.8	2122.7	2511.7	2533.5
 T O T A L	 15373.7	 19458.1	 22448.3	 21451.0

Table 5b: U.S. Investment in Italy by Economic Sector End-Year 2002-2005 (Percentage of Total)

	2002	2003	2004	2005
Agriculture	0.2	0.2	0.2	0.2
Energy	2.8	2.8	2.8	2.7
Industry of which:	60.3	60.7	60.6	60.4
Machine Transportation	13.7	13.6	13.3	13.0
Equipment	4.0	4.0	4.0	3.9
Chemical	16.2	16.3	16.4	16.1
Food	8.5	8.6	8.6	9.3
Textiles	1.2	1.2	1.2	1.2
Minerals/ Metals	1.8	2.0	2.0	2.0
Other	14.9	15.0	15.1	14.9
 Services of which:	 36.7	 36.3	 36.4	 36.7
Trade	4.5	4.4	4.4	4.3
Banking/ Insurance	18.9	18.0	17.9	17.6
Transportation/ Communication	3.0	3.0	3.0	3.0
Other Services	10.3	10.9	11.1	11.8
 T O T A L	 100.0	 100.0	 100.0	 100.0

Table 6a: Italian Investment in the U.S. by Economic Sector -- End-Year 2002-2005 (USD Millions) (2)

	2002	2003	2004	2005
Agriculture	48.0	51.3	52.3	62.6
Energy	1727.6	1816.0	1831.8	1877.2
Industry of which:	6749.5	7061.3	7254.8	7589.1
Machine Transportation	2484.3	2732.2	2777.2	2850.1
Equipment	775.6	863.6	950.8	966.9
Chemical	494.8	261.6	205.2	212.5
Food	249.5	264.1	273.6	289.3
Textiles	670.1	724.7	741.6	813.5
Minerals/ Metals	1440.5	1541.9	1589.1	1637.5
Other	634.7	673.3	717.3	819.4
 Services of which:	 8865.3	 9491.9	 9719.6	 10088.5
Trade	690.0	1142.7	1177.4	1201.9
Banking/ Insurance	4179.5	4434.3	4615.7	4796.9

Transportation/				
Communication	456.2	274.1	232.0	242.0
Other	3539.7	3640.8	3694.5	3847.7
T O T A L	17390.4	18420.5	18858.5	19617.5

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Table 6b: Italian Investment in the U.S. by Economic Sector --
End-Year 2002-2005 (Percentage of Total)

	2002	2003	2004	2005
Agriculture	0.3	0.3	0.3	0.3
Energy	10.5	9.9	9.9	9.6
Industry of which:	39.1	38.8	38.3	38.7
Machine Transportation	14.7	14.3	14.8	14.5
Equipment	4.5	4.5	4.7	4.9
Chemical	2.7	2.9	1.4	1.1
Food	1.4	1.4	1.4	1.5
Textiles	3.9	3.8	3.9	4.2
Minerals/ Metals	8.2	8.3	8.4	8.3
Other	3.7	3.6	3.7	4.2
Services of which:	50.1	51.0	51.5	51.4
Trade	6.3	4.0	6.2	6.1
Banking/ Insurance	23.6	24.0	24.1	24.5
Transportation/ Communication	1.5	2.6	1.5	1.2
Other	18.7	20.4	19.7	19.6
T O T A L	100.0	100.0	100.0	100.0

Table 7: Direct Investment by Origin and Destination End-Year 2005
(USD Millions)

Investment	Foreign Investment in Italy	Italian Italian Abroad	Net Position
EU	145179.5	178145.3	32965.8
of which:			
United Kingdom	25434.5	22617.5	-2817.0
Netherlands	40079.1	65081.5	25002.4
Germany	15309.3	15004.7	-304.6
France	25637.6	23866.6	-1771.0
Spain	4820.5	9866.6	5046.1
Luxembourg	24042.5	25154.7	1112.2
Belgium	1982.3	4944.5	2962.2
Sweden	3034.2	892.6	-2141.6
Other (4)	4839.5	10716.6	5877.1
Non-EU	56139.3	65837.1	9697.8
of which:			
USA	21451.0	19617.5	-1833.5
Switzerland	20115.7	10007.1	-10108.6
Liechtenstein	1975.2	175.9	-1799.3
Japan	3419.1	1164.1	-2255.0
Canada	815.8	1265.6	449.8
Argentina	246.8	2211.3	1964.5
Brazil	184.2	4935.1	4750.9
Other	7931.5	29460.6	18528.9
T O T A L	201318.8	243982.3	42663.5

(1) Annual net investment flow data compiled by Embassy Economic

Section, based on Bank of Italy data and converted at the following end-year exchange rates:

	2002	2003	2004	2005
Euro/Dollar	1.057	0.894	0.805	0.805

Net = New Investment Less Disinvestment. The volatility and huge changes from year to year in some sections can be explained in part by the fact that listed data are "Net": New Investment Minus Disinvestment.

(2) Compiled by the Economic Section of the Embassy based on Bank of Italy data and converted at the following end year exchange rates:

	2002	2003	2004	2005
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Euro/Dollar	0.958	0.799	0.746	0.847
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(3) EU 15 data for 2002, EU 25 data for 2003-2005.

(4) Austria, Denmark, Finland, Portugal, Greece, Ireland (other EU 25 countries), plus Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia.

(5) Original data in euro and converted at the end-2005 exchange rate of one dollar = 0.847 euro.

Sources: Italian Exchange Office And Bank Of Italy Annual Report 2005.

¶12. END PART TWO OF CABLE.

SPOGLI